Lornex

Annual Report 1982

The Corporation

The Corporation produces copper and molybdenum in concentrates and silver as a by-product from its open pit mine and mill located in the Highland Valley area of British Columbia. It has a 39% joint venture interest in the Bullmoose metallurgical coal project in northeastern British Columbia. Exploration is conducted in western Canada.

The Annual General Meeting
10:00 a.m., Thursday, April 14, 1983, in the Shuswap Room, The Four Seasons Hotel, 791 West Georgia Street, Vancouver, B.C.

Cover:
Snow-capped mountains provide dramatic backdrop for the Bullmoose metallurgical coal property in which Lornex has a 39% joint venture interest. Located in northeastern British Columbia, the Bullmoose project is now under construction and scheduled to begin production in late 1983.

Directors' Report to the Shareholders

Lornex incurred a net loss of $11.1 million in 1982 ($1.35 per common share), its first loss for a full fiscal year, compared to net earnings of $23.2 million ($2.81 per common share) in 1981. The world economy experienced the deepest recession in fifty years and the metal mining industry was severely depressed.

In view of the year's results no dividends were paid in 1982 compared to $16.5 million in the previous year.

Financial

Net revenue from mine production was $126.9 million in 1982 compared to $150.9 million in the previous year. Very low metal prices for copper and molybdenum throughout the year were the major reasons for the significant decline in revenue and earnings from 1981. The Canadian dollar gross revenue price realized per payable pound of copper averaged $0.81 in 1982 compared to $0.94 in 1981 and for molybdenum averaged $4.28 in 1982 compared to $6.71 in the previous year. Silver averaged $8.74 per ounce in 1982 and $10.60 in 1981. Comparable 1980 average revenue prices were $1.15 for copper, $10.05 for molybdenum and $21.59 for silver.

1982 was the first full year of operation of the expanded mine and mill facilities, from which full production was achieved in August, 1981. Increased production together with cost reduction and productivity improvement programs implemented during the year partially offset the effects of lower metal prices and cost escalation.

Capital Expenditures

Net capital expenditures in 1982 were $6.8 million compared to $57.1 million in the previous year. The 1982 capital program included $5.1 million related to completion of the plant expansion, with the remainder expended for tailings dam construction and essential equipment replacement. Virtually all costs associated with the expansion have been settled; the actual cost was $150 million compared with the budget of $160 million.

Operations

Comparative operating data are as follows:

	1982	1981
Tons of ore milled (000's)	**30,692**	22,861
Average tons milled per operating day	**84,086**	62,634
Average mill head grade (%)		
— Copper	**0.364**	0.415
— Molybdenum	**0.015**	0.015
Average mill recovery (%)		
— Copper	**90.1**	89.8
— Molybdenum	**70.1**	72.5
Payable metal in concentrate produced (000's)		
— Copper (pounds)	**194,582**	164,730
— Molybdenum (pounds)	**6,347**	4,790
— Silver (ounces)	**739**	590
Payable metal in concentrate delivered (000's)		
— Copper (pounds)	**219,074**	141,669
— Molybdenum (pounds)	**4,650**	3,821

During the year the expanded facilities continued to perform up to expectations. The tonnage of ore milled was 34% higher than in 1981.

In the month of August, 1982 a record average 90,023 tons of ore per day was milled. Production of copper and molybdenum was substantially higher during the year, increasing by 18% and 33%, respectively.

A number of measures were instituted in 1982 to reduce costs, improve labour utilization and increase productivity. A revised mining plan directed at lowering costs, and thus the cash break-even level, by reducing stripping of the orebody and increasing productivity, was implemented in late June; copper head grade was marginally decreased as a result. This plan, which postpones some stripping from 1982 and 1983 to future years, does not materially affect the long term ability of the mine to deliver ore to the concentrator. Numerous other actions taken, while not large when viewed separately, resulted in a significant reduction in costs. The average operating cost per ton of ore milled decreased to $3.43 in 1982 from $3.59 in 1981.

During the year the work force was reduced. At December 31, 1982 there were 917 employees compared to 1,092 at the end of the previous year. A new collective agreement was reached at mid-year with the Corporation's unionized production, maintenance, office and technical employees. The two year agreement expires on June 30, 1984.

As a result of continued attention to safety, accident frequency has been reduced. A new safety program was implemented in November, 1982 and is intended to result in further improvements.

Concrete silos in which Bullmoose coal will be stored prior to shipment. The silos, formed in ten days of continuous pouring, are 71 metres high and 22 metres in diameter, each with a capacity of 11,000 tonnes of coal.

Ore Reserves

Proven ore reserves at December 31, 1982 are estimated to be 448 million tons with an average head grade of 0.371% copper and 0.013% molybdenum. During the year the drilling program undertaken to assess the deep ore beneath the confirmed lower limits was suspended for cost saving reasons.

Marketing

Slightly more than one-half of the annual production of copper concentrates has been sold to a group of Japanese companies under a contract for delivery of a fixed quantity of concentrates per year until the end of 1989. A second sales contract provides for the delivery of a fixed quantity of copper concentrates per year until the end of 1985. Production in excess of the deliveries under these contracts is sold from time to time on a spot basis.

A portion of the molybdenum in concentrates that will be produced in 1983 has been contracted for by a Canadian company on a pricing formula related to published dealer prices for molybdic oxide. A larger portion of the 1983 molybdenum production will be converted to molybdic oxide under toll conversion agreements and the product sold through a sales agent. Arrangements will be made from time to time for the sale of any production in excess of deliveries under these contracts.

Bullmoose Project

A significant event in 1982 was an agreement reached between Lornex and Teck Corporation under which Teck holds a 51% interest, Lornex a 39% interest and Nissho Iwai Coal Development (Canada) Ltd., a 10% interest as joint venturers in the Bullmoose metallurgical coal project. This project, part of the Northeast Coal Development in British Columbia, has the strong support of the Federal and British Columbia governments.

The project facilities, currently under construction, will be operated by Teck. The investment by Lornex for its 39% interest in the project is estimated at $135 million of

which $34.8 million had been expended at December 31, 1982.

The Bullmoose Project is scheduled to be in operation by December, 1983. Long term contracts have been signed with a consortium of Japanese steel mills for the sale of 1.7 million tonnes of metallurgical coal annually for 15 years. Additional contracts are being sought for the sale of approximately 0.6 million tonnes per year.

Construction is proceeding well and is expected to be completed on time and within budget. Major infrastructure related to the project, which is being supplied by Federal and British Columbia government agencies and others, includes the new townsite of Tumbler Ridge, a 130 kilometer British Columbia Rail spur line including two major tunnels between Tumbler Ridge and Anzac and a coal loading facility at Ridley Island near Prince Rupert.

Financing for the Lornex investment in the project will include recourse and non-recourse loans from Canadian and Japanese banks. The recourse loan agreement has been completed and the proceeds are presently being used to fund the Lornex share of project costs. Arrangements for the non-recourse loans are nearing completion.

Exploration

During the year Lornex participated in five mineral exploration projects in British Columbia. Gold, silver, zinc, lead, copper and molybdenum were the main minerals of interest. Two of the projects will be further investigated in 1983 to fully evaluate their potential. More than fifty other mineral properties in western Canada were examined and some of these are currently being considered for acquisition. Exploration expenditures during the year were $714,000.

Exploration strategy will continue to emphasize involvement in projects at an advanced exploration or early development stage and will include selected metallic and industrial minerals.

Outlook

A return to profitable operations depends mainly upon increases in the prices of copper and of molybdenum from the present exceptionally depressed levels; such increases are dependent on improved world economic conditions. Meanwhile, all costs, large and small, for labour, energy, supplies and services will continue to be monitored and examined with the object of achieving maximum operating efficiency and improved productivity.

Directors

The Honourable Robert K. Andras, who served as a Director of the Corporation from April, 1980 until his resignation in July, 1982, died on November 17. His colleagues will miss his counsel. Mr. David A. Thompson, Vice-President, Finance of Teck Corporation, was appointed a Director to fill the vacancy on the Board.

Appreciation

The Directors regret that a reduction in the number of employees had to be made and understand the impact on them and their families. It was necessary to help preserve the large number of jobs we still provide. The Directors wish to thank all Lornex people for their extra efforts under very difficult economic conditions.

On behalf of the Board of Directors

G. R. Albino,
Chairman and President

Vancouver, B.C.
February 16, 1983

Overview of the Lornex mine-mill complex. The expanded facilities continued to perform up to expectations in 1982. A number of measures were instituted during the year to reduce costs, improve labour utilization and increase productivity.

The principal accounting policies followed by Lornex Mining Corporation Ltd. are in accordance with generally accepted accounting practice in the Canadian mining industry and are summarized hereunder.

Revenue from Mine Production and Valuation of Concentrates Awaiting Shipment
Production of concentrates is valued and taken into income as revenue from mine production at estimated realizable metal prices less provision for possible fluctuation in price. Adjustments are made to revenue from mine production with respect to concentrate shipments when the actual metal price is known and the final weight and assay adjustments are determined. Estimated smelting, refining and marketing charges are accrued at time of production and these charges are also adjusted with respect to shipments when the final weight and assay adjustments and marketing charges are determined.

At December 31, 1982 inventories of 17.3 million payable pounds of copper and 2.9 million payable pounds of molybdenum contained in concentrates awaiting shipment were valued as described above; in addition, shipments containing 24.9 million payable pounds of copper for which the final price had not been established were also priced in this manner and the values included in receivables.

Conversion of United States Currency
The accounts in United States currency are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year-end exchange rates; all other assets at rates in effect at time of transactions, and revenues and expenses at actual rates prevailing during the year.

Mine Supplies
Mine supplies are valued at average cost.

Investment in Bullmoose Project
The Corporation has a 39% interest in the Bullmoose joint venture metallurgical coal project and follows the equity method of accounting for its investment. The project was under construction at December 31, 1982 and accordingly the investment's book value is equal to original cost.

Depreciation and Amortization
Depreciation is provided on mining equipment on a straight-line basis over the shorter of its physical life or the estimated life of the mine. The cost of plant and equipment, mining properties and preproduction expenditures is amortized on a unit-of-production basis over the estimated life of the mine.

Capitalization of Interest
The Corporation follows the policy of capitalizing net interest costs during construction or development only on those projects for which funds have been borrowed; this would normally apply only to such major new projects from beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on borrowed funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized. Such net interest costs are capitalized because it is considered that they would not have been incurred if the project had not been undertaken and therefore are properly part of the capital cost of the total project.

Mineral Exploration and Development Costs
Exploration costs are written off as incurred. Expenditures on development projects are capitalized while the projects are considered to be of value to the Corporation.

Income and Mineral Resource Taxes
The Corporation provides for deferred income and mineral resource taxes on all significant timing differences which represent the tax effects of revenue and expense items reported for tax purposes in periods different than for accounting purposes. Investment tax credits claimed for federal income tax purposes are treated as a reduction of the current year's income tax expense.

Statement of Earnings

(Thousands of dollars)

Lornex Mining Corporation Ltd.
(Incorporated under
the laws of British Columbia)

Year Ended December 31	1982	1981
Revenue:		
Net revenue from mine production	**$126,893**	$150,929
Investment and other income (net)	–	3,099
	126,893	154,028
Expenses:		
Operating costs	**105,129**	82,089
Administrative and general	**17,832**	15,131
Amortization and depreciation	**20,816**	15,370
Exploration	**714**	590
Interest expense (net)	**2,087**	–
	146,578	113,180
Earnings (loss) before taxes	**(19,685)**	40,848
Income and mineral resource taxes		
Current	**(2,170)**	2,650
Deferred	**(6,375)**	14,950
	(8,545)	17,600
Net earnings (loss) for the year	**$(11,140)**	$ 23,248
Net earnings (loss) per share	**$ (1.35)**	$ 2.81

Statement of Retained Earnings

(Thousands of dollars)

Year Ended December 31	1982	1981
Balance, beginning of year	**$170,154**	$163,444
Add (deduct) net earnings (loss) for the year	**(11,140)**	23,248
	159,014	186,692
Deduct dividends on common shares	–	16,538
Balance, end of year	**$159,014**	$170,154

Balance Sheet
(Thousands of dollars)

December 31	1982	1981
Assets		
Current:		
Receivables and prepaid expenses	**$ 19,757**	$ 6,860
Concentrates awaiting shipment	**19,209**	38,954
Mine supplies	**17,221**	19,041
	56,187	64,855
Plant and equipment (note 2)	**214,872**	226,457
Mining properties and preproduction expenditures (note 3)	**40,124**	42,634
Investment in Bullmoose Project (notes 4 and 6)	**34,805**	—
Deposits and long term receivables, at cost	**5,123**	5,146
	$351,111	$339,092

Auditors' Report to the Shareholders

We have examined the balance sheet of Lornex Mining Corporation Ltd. as at December 31, 1982, and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand,
Chartered Accountants
Vancouver, British Columbia
January 25, 1983.

	1982	1981
Liabilities		
Current:		
Bank loans and overdrafts	**$ 18,486**	$ 17,875
Accounts payable and accrued liabilities	**21,151**	22,424
Income and mineral resource taxes	**5,593**	10,144
	45,230	50,443
Bullmoose Project bank loans (note 4)	**34,800**	—
Housing loans (interest 8¾% to 11¾%)	**961**	1,014
Deferred income and mineral resource taxes	**99,520**	105,895
	180,511	157,352
Shareholders' Equity		
Capital Stock (note 5):		
Authorized —		
9,500,000 common shares, par value of $1 each		
4,500,000 Class A shares, par value of $1 each		
Issued —		
8,268,762 common shares	**8,269**	8,269
Premium less discount on shares issued for cash	**3,317**	3,317
Retained earnings	**159,014**	170,154
	170,600	181,740
	$351,111	$339,092

Approved on behalf of the Board:
D. S. R. Leighton, Director
G. R. Albino, Director

Statement of Changes in Financial Position

(Thousands of dollars)

Year Ended December 31	1982	1981
Source of Funds:		
Operations		
Net earnings (loss) for the year	$(11,140)	$ 23,248
Add charges against earnings not involving current outlay of funds:		
Amortization and depreciation	20,816	15,370
Deferred income and mineral resource taxes	(6,375)	14,950
Total funds from operations	3,301	53,568
Bullmoose Project bank loans	34,800	—
	38,101	53,568
Disposition of Funds:		
Investment in Bullmoose Project	34,805	—
Expenditures on plant and equipment and preproduction (net)	6,774	57,119
Dividends paid	—	16,538
Deposits and long term receivables	(23)	2,638
	41,556	76,295
Decrease in Working Capital	(3,455)	(22,727)
Working Capital, beginning of year	14,412	37,139
Working Capital, end of year	$ 10,957	$ 14,412

Notes to the Financial Statements

December 31, 1982

1 Accounting Policies

The information on page 6 presents a summary of the principal accounting policies and is an integral part of these financial statements.

2 Plant and Equipment

	1982	1981
	(in thousands)	
Plant and equipment, at cost	$295,138	$288,652
Less accumulated depreciation	80,266	62,195
Total	$214,872	$226,457

3 Mining Properties and Preproduction Expenditures

	1982	1981
	(in thousands)	
Mining properties, at cost	$ 1,233	$ 1,233
Less accumulated amortization	447	399
	786	834
Preproduction expenditures, at cost	57,852	57,852
Less accumulated amortization	18,514	16,052
	39,338	41,800
Total	$ 40,124	$ 42,634

4 Bullmoose Project Bank Loans

Financing for the Corporation's investment in the Bullmoose Project is to include recourse and non-recourse loans from Canadian and Japanese banks. In December, 1982 the Corporation established a recourse credit facility of $79.3 million of which loans of $33.1 million are repayable in semi-annual instalments from July 15, 1985 through July 15, 1992 while the balance remains available until July 15, 1992 on a revolving basis subject to annual reductions. Based on the loans outstanding at December 31, 1982 minimum loan repayments over the next five years are $663,000 in 1985, $2,652,000 in 1986 and $4,972,500 in 1987.

Prior to March 15, 1983 the Corporation is required to issue to the recourse lenders a mortgage and charge over its 39% undivided interest in the Bullmoose Project and the Project's assets. Such mortgage and charge will be subordinated to the security to be given in connection with the non-recourse loans, arrangements for which are nearing completion.

The recourse credit facility is available by way of Canadian and/or U.S. dollar loans and bankers' acceptances at floating interest rates; at December 31, 1982 the loans and acceptances outstanding carried an average interest rate of 12.2%.

5 Capital Stock

At December 31, 1982, 30,000 common shares were reserved for issue under a Stock Option Plan for which no exercisable options are outstanding.

6 Commitments and Contingent Liabilities

(a) Estimated total cost to complete the Corporation's investment in the Bullmoose Project at December 31, 1982 was approximately $100 million of which $13.7 million was committed.

As provided for in certain agreements and contracts, the Corporation has assumed minimum annual operating and payment commitments for port, rail and hydro facilities to the extent of its 39% interest in the Bullmoose Project.

The Project's obligation to the Province of British Columbia to complete the mine has been secured by the issue of a debenture of $100 million. In addition loan guarantees of $7.2 million, subject to escalation from December, 1981, have been provided to the District of Tumbler Ridge, also secured by a debenture. These debentures are secured by a floating charge on all assets of the Project but are subordinated to any other lien issued for any indebtedness incurred to finance the construction of the Project. The Corporation's obligations under these debentures are limited to the extent of its 39% interest in the Bullmoose Project.

(b) The Corporation has a contingent liability to buy back houses and mobile home lots at the Logan Lake townsite for $2,897,000 as at December 31, 1982; the cost of the buyback declines by 5% per annum thereafter.

(c) The Corporation has guaranteed mortgages, amounting to $4,977,000 at December 31, 1982, on certain housing in Logan Lake.

7 Related Party Transactions

(a) Rio Algom Limited has agreed to supervise and manage the business of the Corporation until December 1, 1984. The 1982 management fee was at the minimum agreed level of $250,000; the fee for future years is to be escalated from a base of $1,000,000 in 1980 in accordance with a formula based on published government indices and is subject to a minimum of $250,000 and a maximum based on a percentage of the earnings before taxes.

(b) The Corporation has acquired a 39% interest in the Bullmoose Project from a shareholder, Teck Corporation, at an estimated cost of $135 million. Teck, as manager of the project, received from the Corporation, a management fee of $162,500 in 1982.

8 Income Taxes

(a) The Corporation has accumulated capital losses for tax purposes of $4.2 million which will be available to apply against future taxable capital gains. No recognition has been given in these financial statements to the potential future tax benefit which may result from the application of these losses.

(b) In addition, $9.0 million of investment tax credit carry forwards are available to reduce future taxable income and, if unused, will expire between the years 1985 and 1987. No recognition has been given in these financial statements to the potential future tax benefit which may result from the application of these investment tax credits.

9 Revenue

Virtually the entire net revenue from mine production relates to export sales.

Five Year Review

	1982	1981	1980	1979	1978
Earnings: (thousands of dollars)					
Net revenue from mine production	**$126,893**	$150,929	$173,738	$190,572	$ 88,096
Investment and other income	**—**	3,358	12,355	3,607	829
	126,893	154,287	186,093	194,179	88,925
Operating costs	**105,129**	82,089	55,388	47,058	40,425
Administrative and general	**17,832**	15,131	11,847	9,941	8,603
Amortization and depreciation	**20,816**	15,370	9,865	9,544	9,264
Exploration	**714**	590	—	—	—
	144,491	113,180	77,100	66,543	58,292
Operating profit (loss)	**(17,598)**	41,107	108,993	127,636	30,633
Interest expense	**2,087**	259	110	1,739	4,769
	(19,685)	40,848	108,883	125,897	25,864
Income and mineral resource taxes	**(8,545)**	17,600	43,770	68,328	11,510
Net earnings (loss)	**$(11,140)**	$ 23,248	$ 65,113	$ 57,569	$ 14,354
Production Data: (thousands except per operating day data)					
Tons of ore milled	**30,692**	22,861	17,678	17,776	17,557
Per operating day	**84,086**	62,634	48,302	48,701	48,100
Copper in concentrate (pounds)	**194,582**	164,730(i)	126,346	134,194	135,422
Molybdenum in concentrate (pounds)	**6,347**	4,790	4,813	4,436	3,985
Silver (ounces)	**739**	590	507	487	507
Financial Data: (thousands except per share data)					
Per share of common stock					
Net earnings (loss)	**$ (1.35)**	$ 2.81	$ 7.87	$ 6.96	$ 1.74
Dividends	**$ —**	$ 2.00	$ 4.00	$ 2.00	$ 0.20
Equity	**$ 20.63**	$ 21.98	$ 21.17	$ 17.29	$ 12.33
Long term debt and housing loans	**$ 35,761**	$ 1,014	$ 1,050	$ 1,071	$ 25,448
Shareholders' equity	**$170,600**	$181,740	$175,030	$142,992	$101,942
Common shares outstanding	**8,269**	8,269	8,269	8,269	8,267
Capital expenditures	**$ 6,774**	$ 57,119	$ 95,833	$ 8,657	$ 4,406

Note:
(i) The expanded Lornex facilities commenced operation in August, 1981.

Lornex Mining Corporation Ltd.

Directors

George R. Albino,
Mississauga, Ontario

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Toronto, Ontario

Thomas A. Buell,
Vancouver, B.C.

Akira Fujisaki,
Tokyo, Japan

Robert E. Hallbauer,
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North Delta, B.C.

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West Vancouver, B.C.

John Van Netten,
Willowdale, Ontario

Honorary Director
Egil H. Lorntzsen,
Vancouver, B.C.

Officers

George R. Albino,
Chairman, President and Chief Executive Officer

Lorne H. Hunter,
Vice-President

John Van Netten,
Treasurer

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James McManus,
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H. James Anderson,
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Lornex

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